*Please note that the commentary is for the retail class of the Fund.*

The Fund had a solid quarter, delivering a return of 2.9%, ahead of the benchmark, benefitting from a significant amount of tactical asset allocation moves during the year. Given the extreme moves in many asset classes and currencies, there has been significant opportunities for adding value as markets recovered from the lockdown-driven collapses around the world. The flooding of developed markets by central bank monetary easing, and enormous fiscal stimulus programmes is still having an enormous impact on capital markets. In this environment, one has to be wary of getting caught up in short-term price moves, when the underlying economic conditions remain treacherous.

Our overall equity exposure has increased in the period, but mainly focused on the South African (SA) equity market. We have trimmed the global position and re-established some put protection around the US election period, given high levels of markets and extreme uncertainty around the potential outcome. In contrast to global markets, the SA equity market looks extremely cheap. While we have successfully avoided owning a lot of SA-specific shares that have performed poorly, their valuations are now such that we cannot ignore the compelling investment opportunities. In addition, results that we have seen so far appear to indicate that operating performance has not been as poor as we expected, although we are cautious about reading too much into current results as the economic damage from the harsh government lockdown will be felt for many years to come.

The global shares that are listed on the JSE are also generally still cheap, making the decision to own more JSE-listed shares an easy one. Of course, the path to achieving these returns will be bumpy, and any global sell-off will still impact on the local bourse, even if our shares are not as richly rated as the developed market bourses. However, as long-term investors, the ability to own businesses on earnings yields in excess of 10%, when short-term interest rates are below 4%, makes compelling sense in the long term.

In our global equity allocation, we have trimmed the developed market exposure but still maintain a large exposure to emerging markets. The rampant printing of US dollars, a disruptive and divisive election, and general mismanagement of the Covid-19 crisis does not bode well for the strength of the US dollar. After a decade of dollar strength, we expect a significant period of dollar weakness as the US Fed follows a policy of maintaining negative real interest rates and, specifically, targeting inflation to be sustainably above 2% before contemplating hiking interest rates. This bodes well for emerging markets and for commodities. Given this view, we have increased the weighting to commodities within the Fund, and own gold, platinum and copper. Gold should continue to benefit from flows related to dollar weakness, whereas platinum and copper stand to benefit from looming deficits, as supply has been impacted by better supply discipline and growing industrial demand.

Our fixed income exposure has remained focused on SA government bonds, where yields have remained stubbornly high, despite virtually no yield elsewhere in global markets. Such is the lack of demand for domestic government bonds that even corporate credits are now trading below that of the sovereign. There is a greater expectation that an SA corporate will repay their debt than the state will. While this is always a probability, given the fact that the majority of SA debt is denominated in rands and not dollars there is, in our view, a very low probability of an actual default under the current government. The finance minister has made himself very unpopular by pushing back hard on the fiscal profligacy that marked the prior decade under former President Jacob Zuma and is certainly proposing cost-cutting never before spoken about by an ANC finance minister.

With real yields in excess of 6% for longer-dated government bonds, any potential negatives are mostly accounted for, and any positive news can see the opportunity for meaningful capital gains. Global bonds continue to look incredibly expensive and guarantee the holders negative real returns for the foreseeable future.

Property is a difficult asset class in the current environment. Virtually all properties outside of logistics have been negatively impacted by lockdowns, with retail properties the worst, followed closely by office properties. It is difficult to see exactly how the world returns to normal and what this means for rental tensions in a market where undoubtedly demand for space will have reduced. While prices optically show great value, balance sheet strength is the only game in town and we are being cautious to ensure that any exposure we have is to those companies with robust balance sheets able to resist significant declines in property values.

Looking ahead, we are still very excited about the potential return opportunities from the various asset class building blocks. Yields from just holding the existing assets should enable double-digit returns for the foreseeable future, with capital gains potential on top of that. While there is always risk in markets, the return potential is such that we have significantly increased the risk asset exposures in the Fund to take advantage of this mispricing.

Portfolio managers
Neville Chester and Nicholas Stein
as at 30 September 2020